

BANKING & INVESTMENT POLICY



MHLONTLO LOCAL MUNICIPALITY

1. Preamble

Whereas the dynamic nature of the Mhlontlo Local Municipal Council's business requires a commitment to establishing the responsibility for a network of processes with the objective of controlling the operations of the organization in a manner which provides the Accounting Authority reasonable assurance that:

- a) The Council's resources (including its people, systems and data/information bases) are adequately protected.
- b) Data and information published either internally or externally is accurate, reliable and timely
- c) Resources are acquired economically and employed cost effectively and efficiently; quality business processes and continuous improvement are emphasized.
- d) The actions of Municipal Officials are in compliance with the Municipality's policies, standards, plans, procedures and all relevant laws and regulations and
- e) The Municipality's plans, programs, goals, and objectives are achieved.

Whereas this document serves as a basis for sound action by Municipal Officials in the execution of their daily duties with respect to financial management and control within the Municipality. The Municipal Manager and delegated officials remain accountable for the implementation and monitoring adherence to these policies and procedures

Whereas these policies are implemented within the hereunder mentioned:

1. Control Objectives

- i) All transactions made are completely and accurately recorded.
- ii) All recorded transactions are valid.
- iii) Rights / obligations of assets / liabilities are recorded.
- iv) All transactions are recorded at correct amount.
- v) All assets exist.
- vi) Credits granted are valid and recorded accurately.
- vii) Recorded transactions are processed properly.
- viii) Proper close off of accounting sub-systems has been achieved.
- ix) All transactions are properly and promptly recorded.
- x) Adequate provision for doubtful debts is made.
- xi) Basis of accounting used is consistent

And whereas the following control activities need to be incorporated in the financial management procedures:

1. An appropriate organizational structure is required to ensure that all financial activities occur in a structured manner. Clear accountability should be determined.
2. It is essential that segregation of the functions and or activities of *execution, approval, custodianship and review* should be achieved.
3. Procedures must clearly dictate physical controls and limitations placed on individuals to assist with segregation of duties to ensure appropriate control environment and safeguarding of assets.
4. All transactions must be approved and authorized by the appropriate responsible and delegated Municipal Official.

Be it therefore enacted in terms of the council resolution.

Date

Honorable Mayor

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Definitions

Unless otherwise stated the hereunder shall mean the following:

"accounting officer"

(a) means the Municipal Manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No.32 of 2000)

"assets" are resources controlled by the municipality as a result of past events and from which future economic benefit or services potential are expected to flow to the municipality.

"chief financial officer" means an officer of a municipality designated by the municipal manager in terms of section 80(2) (a) of the MFMA; to be administratively in charge of the budgetary and treasury functions.

"councilor", means a member of a municipal council;

"current year" means the financial year, which has already commenced, but not yet ended;

"delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty'

"financial statements", means statements consisting of at least-

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) a cash –flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements;

"financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

- (a) "

"investment", in relation to funds of a municipality, means-

- (a) the placing on deposit of funds of a municipality with the financial institution; or
- (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"local municipality" has the meaning assigned to it in section 1 of the Municipal System Act;

"mayor" means the councilor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"municipal entity" has the meaning assigned to it in section 1 of the Municipal System Act (refer to the MSA for definition);

"municipality"-

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"National Treasury" the National Treasury established by section 5 of the Public Finance Management Act

"official", means-

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"past financial year" means the financial year preceding the current year;

"quarter" means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

1. LEGAL COMPLIANCE

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. of 2003.

2. OBJECTIVE OF INVESTMENT POLICY

- a. The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- b. The council therefore has a responsibility to invest these public revenues in a knowledgeable and judicious manner, and must be able to account fully to the community in regard to such investments.
- c. The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts and surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

3. EFFECTIVE CASH MANAGEMENT

3.1 Cash Collection

- i. All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- ii. The respective responsibility of the CFO and other heads departments in this regard is defined in a code of financial practice approved by the municipal manager and CFO. The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

3.2 Payments to Creditors

- i. The CFO shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favorable to the municipality.
- ii. Such payments shall be effected on the 15th and 30th of each month. Such a rule shall be departed from only where there are financial or other appropriate incentives for the municipality to effect an earlier payment, and any such departure shall be approved by the CFO before any payment is made.

3.3 Cash Management Programme

- i. The CFO shall prepare an annual estimate of the municipality's cash flow divided into calendar months, and shall update this estimate on a weekly basis. The estimates shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when-if applicable-whether long-term or short- term debt must be incurred. Heads of departments shall in this regard furnish the CFO with all such information as is required, timeously and in the format indicated.
- ii. The accounting officer shall report to the executive committee and or the Mayor, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The cash flow estimates shall be divided into calendar months, and in reporting the accounting officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

4. INVESTMENT ETHICS

- i. The accounting officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.
- ii. In making such investments, the accounting officer shall at all times have only the best considerations of the municipality in mind and shall not accede to any influence by or interference, investment agents or institutions or any other outside parties.
- iii. The accounting officer may not accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

5: INVESTMENT PRINCIPLES

5.1 Limiting Exposure

- i. When large sums of money are available for investment, the accounting officer shall ensure that they are invested with more than one institution, whichever practicable, in order to limit the risk exposure of the municipality. The accounting officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered that is, call, money market and fixed deposits).

5.2 Risk and Return

Although the objective of the accounting officer in making investments on behalf of the municipality shall be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see 5.4 below).

5.3 Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the CFO in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

5.4 Call Deposits and Fixed Deposits

- i. Before making any call or fixed deposits, the CFO shall obtain quotations from at least three financial institutions.
- ii. Given the volatility of the money market, the CFO, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only maturity, and so forth).
- iii. Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).
- iv. Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the CFO shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

5.5 Restriction on Terms of Investment

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive committee.

6. CONTROL OVER INVESTMENTS

- i. The CFO shall ensure that proper records are kept for all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.
- ii. The CFO shall ensure that all interests and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interests or capital is not fully or timeously received.
- iii. The CFO shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

7. OTHER EXTERNAL INVESTMENTS

- i. From time to time it may be in the best interest of the municipality to make longer-term investments in secure stock issued by the national government, ESKOM or any other reputable parastatal or institution, or by another reputable municipality. In such cases the accounting officer must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.
- ii. No investment with a tenure exceeding twelve month shall be made without the prior approval of executive committee and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

8. BANKING ARRANGEMENTS

The municipal manager is responsible for the management of the municipality's bank accounts and shall counter sign any document and or cheque pertaining to any Municipal account.

The CFO is authorized at all times to be the primary signatory to all accounts and cheques issued by the municipality.

One senior official from finance on the recommendation by the CFO may sign on all accounts and cheques provided that such recommendation has been approved by the council.

In compliance with good governance the accounting officer shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). One or more separate accounts shall also be maintained for the following capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the municipality's self- insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the CFO shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless these are compelling reasons e.g. investments, to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.

The municipal manager shall in selecting a primary bank invite tenders for the placing of the municipality's bank accounts within six month after the election of each new council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier or later stage, if the municipal manager is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective, and the Mayor or the executive committee, as the case may be, agrees to the prognosis.

9. RAISING OF DEBT

The municipal manager is responsible for the raising of debt, but may delegate this function to the CFO who shall then manage this responsibility in consultation with the municipal manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.

Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustment budget.

Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or so settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow

estimates prepared by the CFO. Short-term debt shall be raised only to anticipate a certain long-term agreement or a certain inflow of operating revenues.

10. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

In managing the municipality's investments, the CFO shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved.

If the loan raised is not a fixed term-loan, but an annuity loan, the CFO shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

11. INTEREST ON INVESTMENTS

The interests accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

In the case of the external finance fund, the CFO may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued. If the accrual of interest to the external finance fund, unutilized capital receipts and trust funds result in a surplus standing to the account of any such funds, that is, an amount of surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the CFO to the appropriation account and re-appropriated to the asset financing reserve.

12. PAYMENTS

All payments, other than petty cash disbursements, shall be made through the municipality's bank accounts(s).

The CFO shall draw all cheques on this account, and shall, in consultation with the municipal manager and with due regard to the council's policy on banking and investments.

All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the CFO. Such vouchers shall be authorized in terms of such rules and procedures as are determined from time to time by the CFO and approved by the Municipal Manager.

The maximum amount and nature of petty cash disbursements, where not covered by the general buying procedures referred to in Section 2, shall be generally determined from time to

time by the CFO. No cash float shall be operated without the authority of the CFO, who may prescribe such procedures relevant to the management of such float as are considered necessary.

The CFO shall be responsible for the payment of all salaries and remuneration benefits to employees and councilors, and for the determination of payment system to be used.

13. REVENUE AND CASH COLLECTION

Every head of department shall be responsible for the collection of moneys falling within the ambit and area of his or her designated functions.

The CFO shall ensure that all revenues are properly accounted for.

The collection of all arrear revenues and the control of arrear accounts shall be coordinated by the CFO in terms of any policies determined by the council. If it is clear that any revenues are not recovered after the necessary steps have been taken, the CFO shall report the matter adequately and timely to the executive committee.

The CFO shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

13. BANKING OF RECEIPTS

Guidelines and procedures for the banking of cheques and other receipts shall, if necessary, be determined from time to time by the CFO.

Where applicable, every head of department shall ensure that all revenues are banked daily with the municipality's banker(s), or less frequently if so approved by the CFO.

14. This policy has been approved by the Municipality in terms of Council resolution

dated and takes effect on the effective date of the first valuation roll on 1 July 2014

Approved by
Mayor

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Municipal Manager

Date
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